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RUEHBJ/AMEMBASSY BEIJING 7157
RUEHCN/AMCONSUL CHENGDU 2048
RUEHGZ/AMCONSUL GUANGZHOU 0481
RUEHGH/AMCONSUL SHANGHAI 1299
RUEHSH/AMCONSUL SHENYANG 6017
RUEHHK/AMCONSUL HONG KONG 8412
RHHMUNA/USPACOM HONOLULU HI
RUEHML/AMEMBASSY MANILA 0125
RUEHGP/AMEMBASSY SINGAPORE 6974
RUEHKO/AMEMBASSY TOKYO 9007
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UNCLAS SECTION 01 OF 03 TAIPEI 001937

SIPDIS

DEPT FOR EAP/RSP/TC AND EB/TRA
USDOC FOR 4330/ITA/MAC
CBP FOR CARLOS CORTEZ AND VINCENT HUANG
HONG KONG PASS TO CBP REPRESENTATIVE/R. POWELL

FROM AIT KAOHSIUNG BRANCH OFFICE

SIPDIS

E.O. 12958:N/A
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SUBJECT: Port of Kaohsiung's Container Volume Eclipsed by Mainland Port Growth; Struggles to Maintain Transshipment Business

SENSITIVE BUT UNCLASSIFIED

1. (U) Summary. With geographic advantages and new long-term leases from major shipping carriers, Kaohsiung will likely hold on to its status as a transshipment hub in the Asia-Pacific region, even as it continues to fall behind in world rankings. The completion of a s)QD'Qolume is expected to reach at least 10 million TEUS by the end of 2007, if not sooner. At the same time, Shanghai, Shenzhen, Dubai, Qingdao, Ningbo, Tianjin, and Guangzhou have surged ahead in recent years, boasting annual growth rates between 10% and 40%.

13. (U) Taiwan authorities are undertaking mixed measures to boost the Kaohsiung harbor area's economy. According to Marco Lin of the Kaohsiung Urban Development Bureau, the future of Kaohsiung Harbor will also include leisure and tourism facilities. The redevelopment initiative comes at a time when traditional industries like agriculture and manufacturing are moving to China and Southeast Asia due to lower labor costs. However, harbor-area unions argue that the selected piers are currently operating at near full-capacity and should be reserved for shipping use. Kaohsiung will also soon begin building its sixth container terminal, set for completion in 2014. Unlike Kaohsiung's other container terminals, Terminal No. 6 will have offshore status and be able to accommodate the sixth-generation, large vessels that require at least 15 meters of water to dock. Acquiring large vessel capabilities will help Kaohsiung adapt to changing shipping carrier needs, especially since most of Kaohsiung's Chinese competitors and Dubai already possess these capabilities.

Strong Mainland Economic Growth Driving Port Competition

14. (SBU) According to National Sun Yat-sen University Professor Hu Nien-tsu, Terminal No. 6 will help boost Kaohsiung Port's container volume, but this project is neither sufficient nor timely enough to compete with the double-digit growth of other ports, particularly on the mainland. China's lower labor costs, large hinterland,

logistics centers, and booming export market account for the Chinese ports' explosive growth. Additionally, Dr. Hu believes that Shanghai's location in the middle of China's coastline, its banking and insurance sectors, and its previous glory as the hub of commerce between East and West will enable it to surpass Hong Kong and become the world's largest container port in the next year or two. On the other hand, Kaohsiung Harbor Bureau (KHB) Director Hsieh Ming-tui contends that Xiamen is likely to be Kaohsiung's biggest competitor for the near future, as Shanghai is both too far away and too focused on local shipping to directly challenge Kaohsiung. In any event, Mr. Siew Loong Wong, Managing Director of American Presidential Lines (APL) Taiwan, believes it is unlikely Kaohsiung will remain in the top ten rankings for much longer.

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15. (SBU) As China's economic growth continues to catalyze its port growth, the cross-strait ban on direct shipping is preventing Kaohsiung and other Taiwan ports from achieving economies of scale. According to David Chien-Yu Cheng of the KHB, direct shipping would lower the costs borne by shipping companies, as vessels would no longer have to go through a third port like Hong Kong or Pusan. However, Dr. Hu asserts that lifting the ban would be necessary but insufficient for Kaohsiung to increase its container volume beyond 10 million TEU, even when Terminal No. 6 is complete. Aggressive mainland tactics may even cause Kaohsiung's container volume to decline in the future. Mr. Wong informed AIT that mainland ports are approaching shipping carriers and "poaching" their business from Kaohsiung.

Local Pressure from New Port in Taipei; Limited Success from FPZ

16. (U) Additionally, Kaohsiung Port faces potential local cargo shipping competition from the new port being constructed in the Danshui area of Taipei, although AIT interviews indicate that the port is primarily intended to reduce existing inefficiencies in local cargo movement, as well as to eventually replace the Port of Keelung in the north. According to Mr. Hsu of Evergreen Lines' Investment Division, because most of the local cargo currently shipped through Kaohsiung comes from the central and northern part of the island, the Taiwan government's decision to build the Taipei port is based on a desire to minimize transportation costs, time delay, and environmental effects of moving cargo across the island by truck. Indeed, Mr. Chang Ya-fu of KHB's Port Development Section believes that the new port will not significantly challenge Kaohsiung for resources, as the central government will find ways to balance the north and south.

17. (U) However, the new port may put pressure on Kaohsiung by absorbing new investment. Major Taiwan shipping carriers Evergreen, Wan Hai, and Yang Ming were jointly awarded investment rights in the Build-Operate-Transfer (BOT) Taipei port, set for completion in 2009, whereas Yang Ming remains the sole bidder for Kaohsiung's Terminal No. 6. Attracting shipping carrier investment during a time of restructuring and comparatively weaker growth remains a crucial concern for Kaohsiung. Dr. Hu explains that if Kaohsiung cannot retain big shipping companies for at least ten years at a time, such companies will see no reason to invest in the port.

18. (U) The designation of 397 hectares of land at the harbor as a Free Trade Zone (FTZ) in January 2005 has also brought little new business or investment to Kaohsiung. According to Mr. Hsu, the FTZ began as a way to get value-added profits from tax-free goods transshipped through Kaohsiung, but labor costs and exchange rates in China's favor are diverting such goods away from Kaohsiung. Meanwhile, logistics warehouses in Kaohsiung remain unused, and the FTZ's limited area cannot accommodate any additional companies. The Taipei American Chamber of Commerce also argues that an FTZ outside this current area makes more sense, as the port is already duty-free.

Kaohsiung Clings to Natural Advantages; Maintains Business Ties

19. (U) Despite these challenges, Kaohsiung still offers the shortest links to the Asia-Pacific region's five leading ports (Hong Kong, Pusan, Shanghai, Singapore, and Tokyo) by an average of 53 hours of

navigation time. This strategic position will likely bring Kaohsiung transshipment business for years to come. Indeed, Evergreen, APL, Wan Hai, and NYK recently signed new ten-plus year leases with Kaohsiung. Mr. Hsu of Evergreen told AIT that his company intends to keep Kaohsiung as its transshipment hub despite its investment in the Taipei port because there is sufficient cargo for both areas, and also because Evergreen has previously invested in Kaohsiung.

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¶10. (U) In addition to container volume, Mr. Wong of APL claims that investors also consider the size of a port's hinterland in determining its vitality. Kaohsiung offers a larger natural port area than that of Taipei's, translating into more opportunities for future development. Furthermore, Mr. Hsu of Evergreen claims that the shipping business has acclimated to globalization, in that sovereignty issues do not preclude joint ventures between mainland and Taiwan shipping carriers, even as the direct shipping ban remains in effect. Locally, Kaohsiung is currently working on lowering tariffs, rental charges, and streamlining bureaucratic procedures to retain its shipping carrier business. According to Ms. Mak of OOCL, KHB has lowered costs for inbound containers carrying refrigerated cargo, consumer products, and European products; these are expected to comprise Kaohsiung's new source of business.

Comment

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If Kaohsiung continues to sign long-term leases with major shipping carriers and improves certain efficiencies, its continued presence as a transshipment hub in the Asia-Pacific region appears viable. At the same time, Kaohsiung appears focused on attaining the full-service logistics hubs that currently characterize ports like Shanghai. The redevelopment projects may also create a more vibrant local economy that attracts investors, personnel, and businesses with new capital to invigorate Kaohsiung's harbor area in coming years.

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